

Auctions by the transitional common auction platform

3rd Report

Auction platform: European Energy Exchange (EEX)

Auction dates/reporting period:

2, 6, 7, 13, 14, 16, 21, 23, 27, 28, 30 May 2013

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Editor's note: This report has been prepared by the Commission with the assistance of DLA Piper UK LLP and CEFIN BV, who are working under a contract for the Commission, on behalf of the following Member States: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden. These Member States have approved this report under the rules in the Joint Procurement Agreement to procure common auction platforms. The report complies with the requirement laid down in the fourth subparagraph of Article 10(4) of Directive 2003/87/EC.¹

Methodology: The report is based on the reports submitted by EEX, on the discussions in regular meetings between the Commission, its advisors and EEX and on any further relevant information available to the Commission. The authors of the report did not actively verify EEX's compliance with the specific rules and provisions applicable under European or national law.

For reasons of confidentiality and proper enforcement of the applicable rules, the report refers only to public reporting on the auctions and not to any non-public reports.

Disclaimer: The authors have made every effort to ensure that the information provided is complete, correct and precise for the reporting period. Nevertheless, the report is based on limited information available to the authors in a market context where much information has to remain confidential. The authors did not actively verify the information. Therefore, the authors and the Member States on whose behalf this report was drafted deny any responsibility or liability whatsoever for its contents, regardless of the nature of such contents. Any reliance by any person or entity on the information provided in this report is solely at that person's or entity's own risk.

Glossary: terms and expressions written in *italics* are included in the glossary.

¹ Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC, OJ L 275, 25.10.2003, p. 32, as subsequently amended.

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Executive summary

This report covers the auctioning of emissions allowances in the period May 2013. In that period, EEX, in its capacity as the common auction platform, auctioned a total of 38 082 000 *EU general emission allowances ('EUAs')* for the *third trading period* on behalf of those EU Member States that participate in the transitional common auction platform (*participating Member States*) and that had at the time of the auction already been admitted and recognised by EEX/ECC. The total amount raised from the 11 auctions held during the reporting period was EUR 129 513 420. Taking into account the volumes per auction, the weighted average clearing price during the reporting period was EUR 3.40 per EUA.

During the reporting period, all participating Member States continued to be admitted and recognised by EEX/ECC to participate in the auctions. During the reporting period 48 bidders were eligible to bid in the auctions, of which 33 qualified as operators in the EU ETS.

All auctions were held securely and smoothly and no irregularities or deviations from the requirements were observed.

Generally, the auction clearing price was in line with the price signal in the secondary market. Both prices lacked a distinct up or downward trend during the reporting period.

During the reporting period, EEX did not hold any auction for *EU aviation allowances ('EUAAAs')* as these auctions were put on hold following the Commission's proposal for a derogation for aircraft operators with respect to flights into and out of the EU in 2012 (the '*stop-the-clock*' proposal). This proposal was adopted by the European Parliament and the Council on 24 April 2013.²

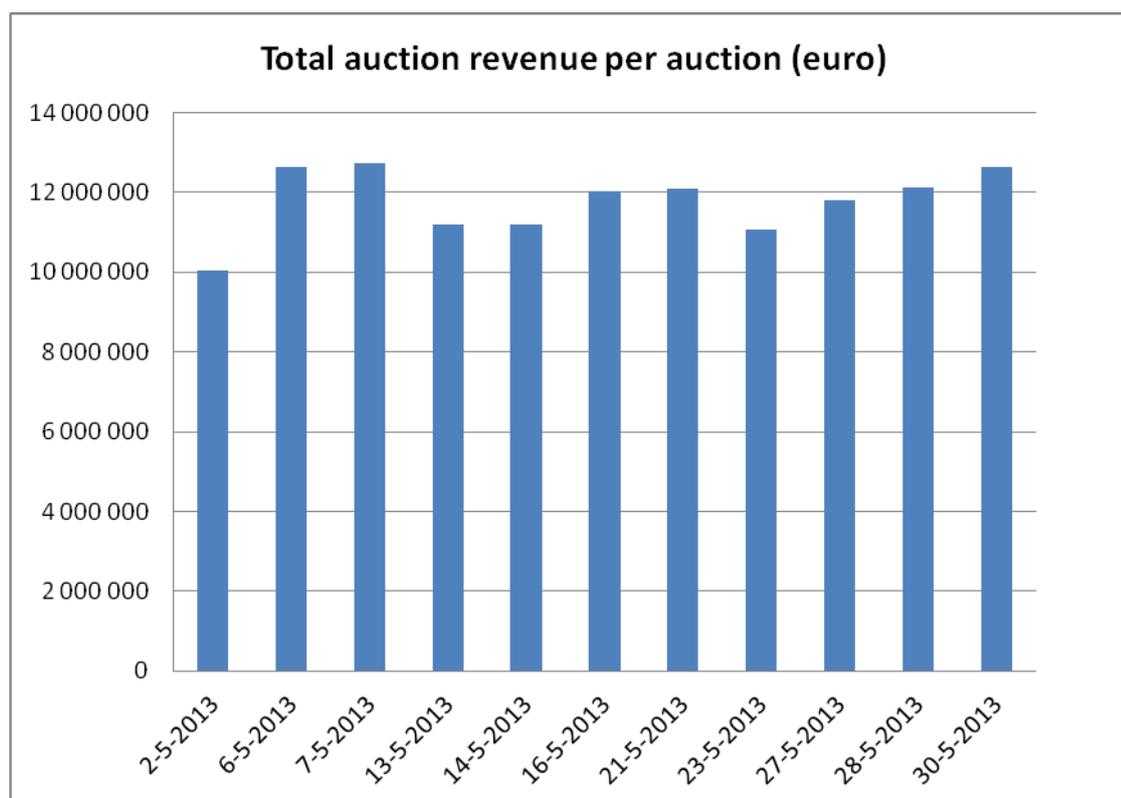
² Decision No 377/2013 EU of 24 April 2013 derogating temporarily from Directive 2003/87/EC establishing a scheme for greenhouse gas emission allowance trading within the Community, OJ L 113, 25.4.2013, p. 1.

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Section 1. Results of the auctions

During the month of May 2013, EEX, in its capacity as the transitional common auction platform, auctioned a total of 38 082 000 *EU general emission allowances* ('EUAs') valid for the *third trading period* on behalf of all 24 EU Member States that have contracted EEX and appointed it as the transitional common auction platform. The total amount raised from the 11 auctions held during the reporting period was EUR 129 513 420 (see Graph 1 and Table 1). Taking into account the volumes per auction, the weighted average clearing price during the reporting period was EUR 3.40 per EUA.

Graph 1 Total auction revenue per auction (euro)



During the reporting period the volume of allowances per auction was at a constant level of 3 462 000.

Table 1 Auction revenues per Member State

	May		May
Austria	3 441 720	Ireland	3 030 210
Belgium	6 284 880	Italy	23 904 990
Bulgaria	3 254 670	Lithuania	1 197 120

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	May		May
Cyprus ³	0	Luxemburg	299 280
Czech Republic	6 359 700	Latvia	654 675
Denmark	3 105 030	Malta	243 165
Estonia	823 020	Netherlands	8 286 315
Greece	8 604 300	Portugal	4 358 265
Spain	21 435 930	Romania	7 575 525
Finland	4 133 805	Sweden	2 207 190
France	13 579 830	Slovenia	1 103 595
Hungary	1 814 385	Slovak Republic	3 815 820

Detailed information per auction can be found in **Annex I**.

Auctioning Member States

At the start of the reporting period, all the auctioneers of all participating 24 Member States had been admitted and recognised by EEX/ECC and were participating in the auctions.

Poland stated its intention to make use of the transitional common auction platform under the second subparagraph of Article 30(7) of the *Auctioning Regulation*⁴ pending the procurement, appointment and listing of its opt-out auction platform. Poland and EEX are currently preparing to hold such auctions on the transitional common auction platform. The start date remains to be determined.

The Member States of the European Free Trade Association (EFTA) that are Party to the European Economic Area (EEA)⁵ have also stated their intention to make use of the transitional common auction platform. The Commission is currently discussing the arrangements for the use of the platform with these States. It is not yet clear when the transitional common auction platform will start to auction allowances for the EEA-EFTA States.

Auction clearing price

During the period under consideration, the auction clearing price for the EUAs moved between EUR 2.90 and EUR 3.68 per allowance (see Graph 2). The lowest auction clearing price in this period is EUR 0.25 above the lowest auction clearing price during the previous month. The highest auction

³ In accordance with the *Auctioning Regulation*, half of the 'early auctions' for 2012 and all allowances allocated free of charge to electricity operators on a transitional basis pursuant to Article 10c of the ETS Directive are to be subtracted from the volume to be auctioned by a Member State. For these reasons, until the end of 2013 no allowances are to be auctioned for Cyprus.

⁴ Commission Regulation (EU) No 1031/2010 on the timing, administration and other aspects of auctioning of greenhouse gas emission allowances pursuant to Directive 2003/87/EC of the European Parliament and the Council establishing a scheme for greenhouse gas emission allowances trading within the Community of 12 November 2010, OJ L 302, 18.11.2010, p.1, as subsequently amended.

⁵ Iceland, Liechtenstein and Norway.

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clearing price in this period is EUR 1.30 per allowance below the highest auction clearing price of the previous month.

Graph 2: Auction Clearing Price (ACP) & Maximum bid & Minimum prices bid [euro/ton]



For all auctions, the auction clearing prices were equal to, or between, the *best-ask and best-bid prices* on the EEX *secondary market* for spot Phase-3 emission allowances. In general, the clearing prices were also in line with the prices of carbon products (spot and futures) on other trading venues, and with the clearing prices of other auctions of emission allowances conducted during the period. A considerable degree of uncertainty in the carbon market was illustrated by price volatility, although the price movements lacked a distinct up or downward trend during the reporting period.

Maximum and minimum prices bid

The highest prices bid in the auctions were on average 0.28 €/ton above the clearing price (see Graph 2). This difference peaked on the second and third auction of the reporting period.

The lowest prices bid in the auctions were on average 1.25 €/ton below the clearing price. This difference increased during the last three auctions of the reporting period.

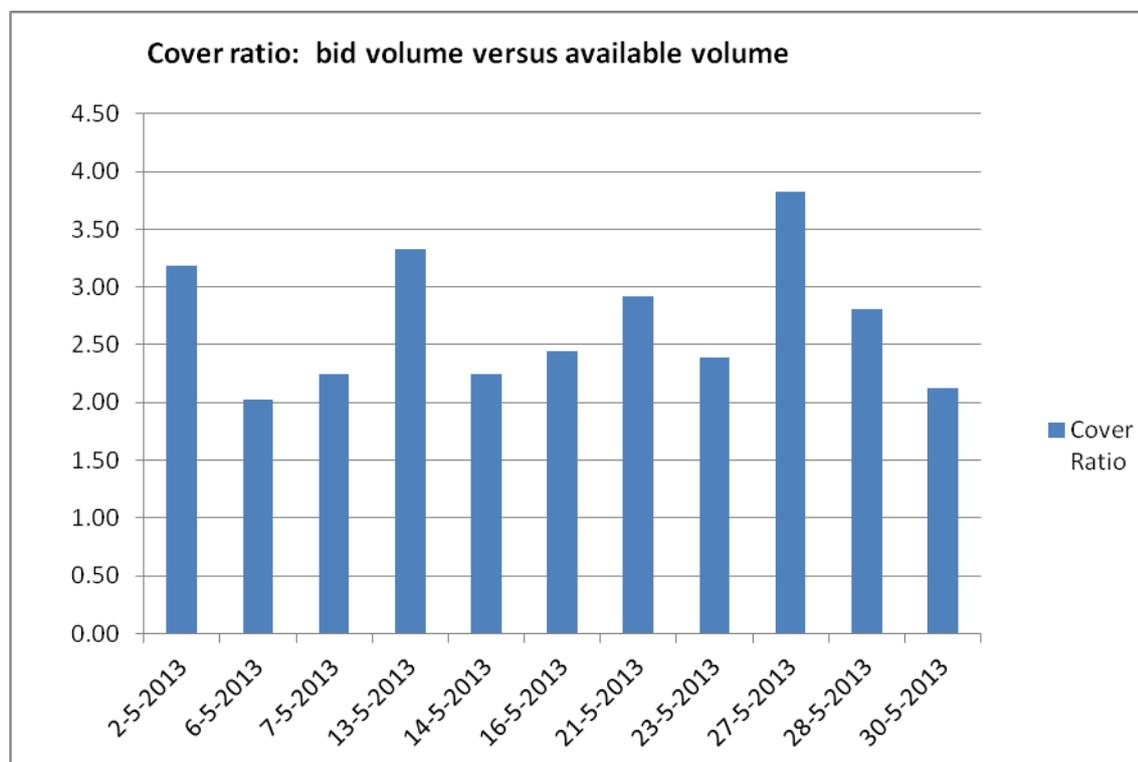
The difference between the maximum price bid and the minimum price bid in the auctions was variable and did not show a distinct trend during the reporting period. Overall, this spread declined somewhat compared to the previous month.

Cover ratio

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The *cover ratio* — the bid volume as a proportion of the available volume in the auction — (see Graph 3) moved in general between a value of 2 and almost 4 during the reporting period. The average is slightly higher than the *cover ratio* during the previous month. The lowest *cover ratio* during the reporting period was 2.03 at the auction of 6 May 2013 with the highest *cover ratio* being 3.82 at the auction of 27 May.

Graph 3 Cover ratio: bid volume versus available volume



Number of Bidders

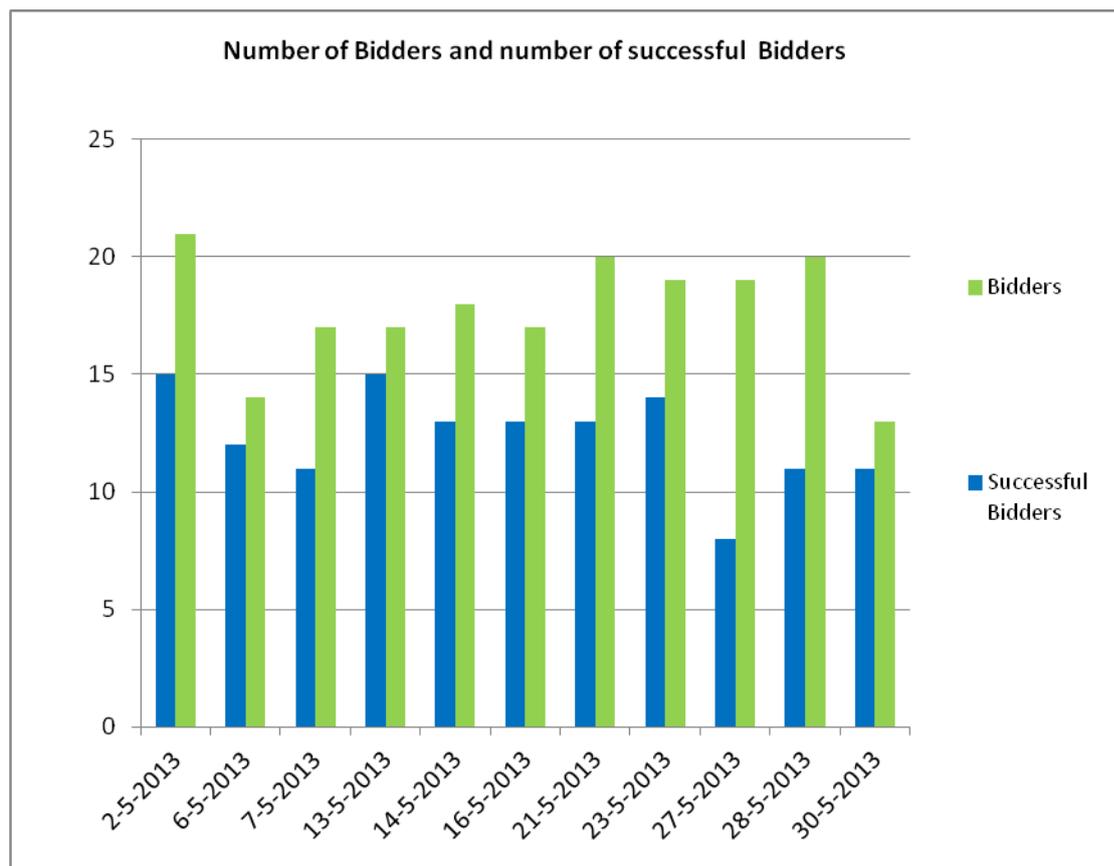
The number of active bidders (see Graph 4) per auction ranged from 13 to 21. The average number of active bidders was 18, which is equal to the number of active bidders during the previous month. The number of successful bidders per auction ranged from 8 to 15 during the reporting period. The average number of successful bidders was 12, which is one less than the average number of successful bidders during the previous month.

Overall, the number of active bidders per auction did not show a distinct upward or downward trend during the reporting period. The number of successful bidders showed a minor decline during the reporting period.

EEX participated in several events to publicise the auctions and increase the number of bidders.

Graph 4 Number of bidders and number of successful bidders

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Average volume per bidder and average volume won by successful bidders

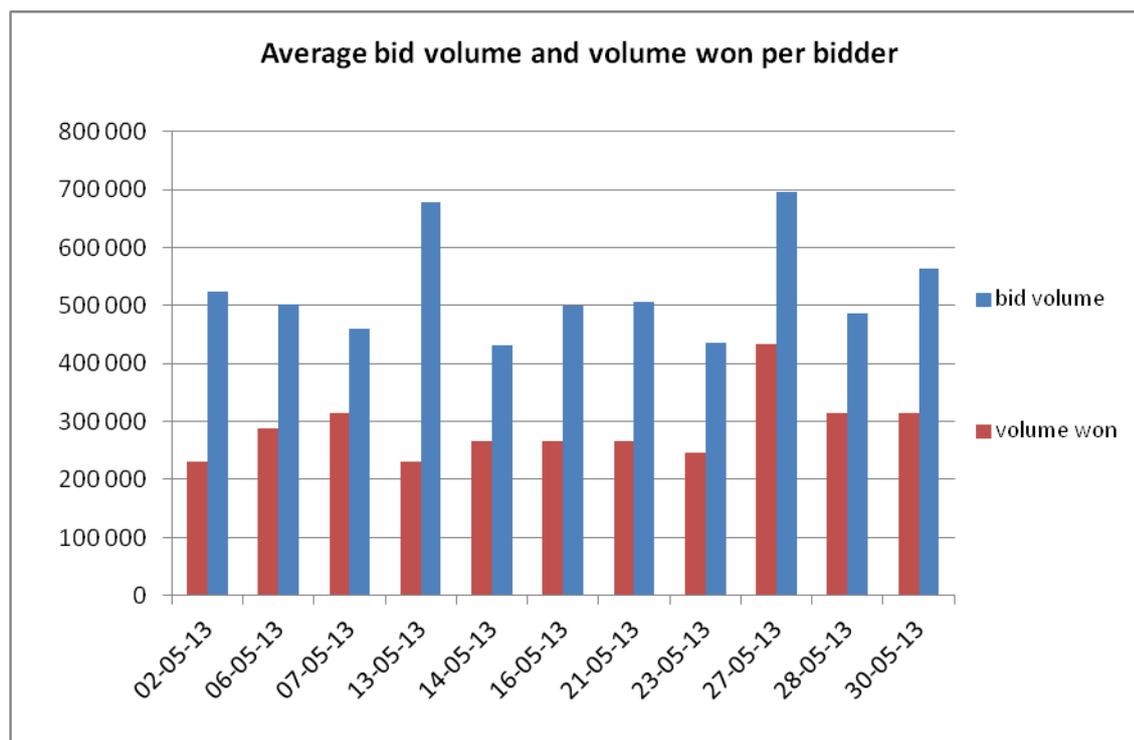
The average bid volume per bidder (see Graph 5) ranged from 432 444 to 695 789 EUAs. The bid volume per bidder did not show a distinct upward or downward trend during the reporting period.

The average volume won by successful bidders ranged from 223 800 to 432 750 EUAs and showed a slight upward trend during the reporting period.

The aforementioned values are rather similar to the levels during the previous month.

Graph 5 Average bid volume and volume won per bidder

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Volume of successful bids per bidder category

All bidders bid on their own account. *Operators*, including business groupings of *operators*, accounted for almost 37% of the total auctioned volume during the reporting period (see Graph 6).

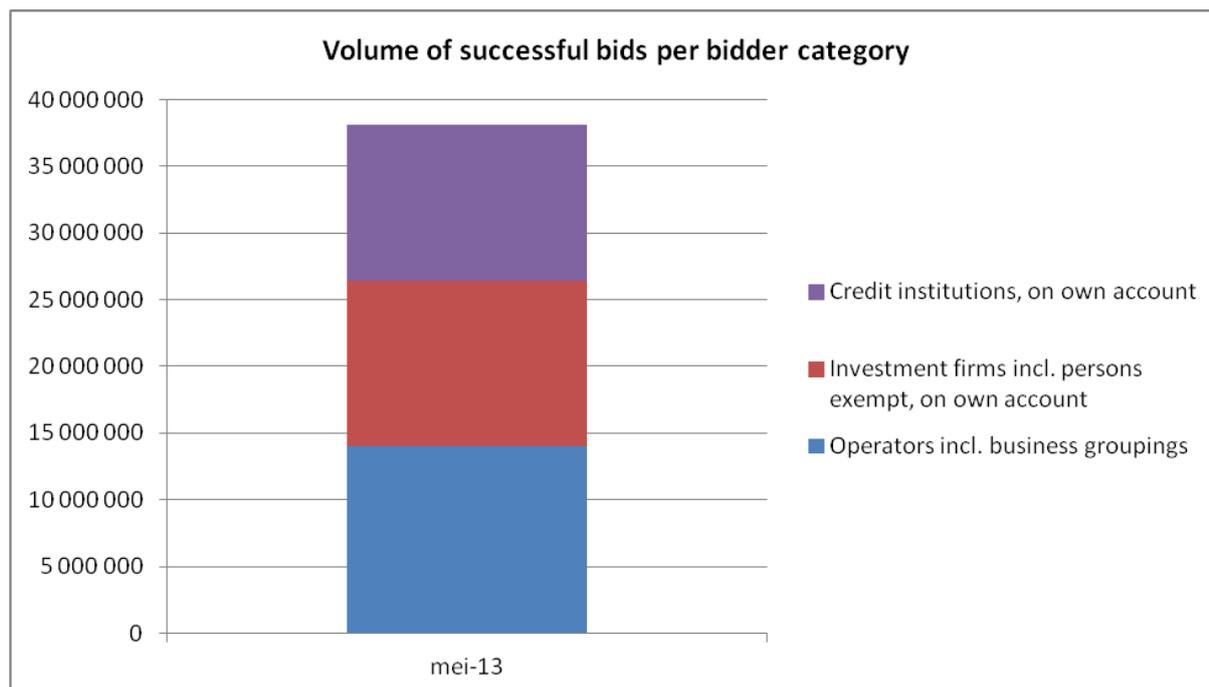
Investment firms, including *persons exempt*, accounted for almost 33% of the total auctioned volume during the reporting period.

Credit institutions accounted for about 30% of the total auctioned volume during the reporting period.

Overall, compared to the previous month, the share of the operators decreased slightly, whereas the share of investment firms, including *persons exempt*, increased by almost 10% and the share of the credit institutions decreased by about 6%. For individual auctions, the fluctuations of these shares are relatively significant, though.

Graph 6: Volume of successful bids per bidder category

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The Herfindahl-Hirschman Index (HHI)

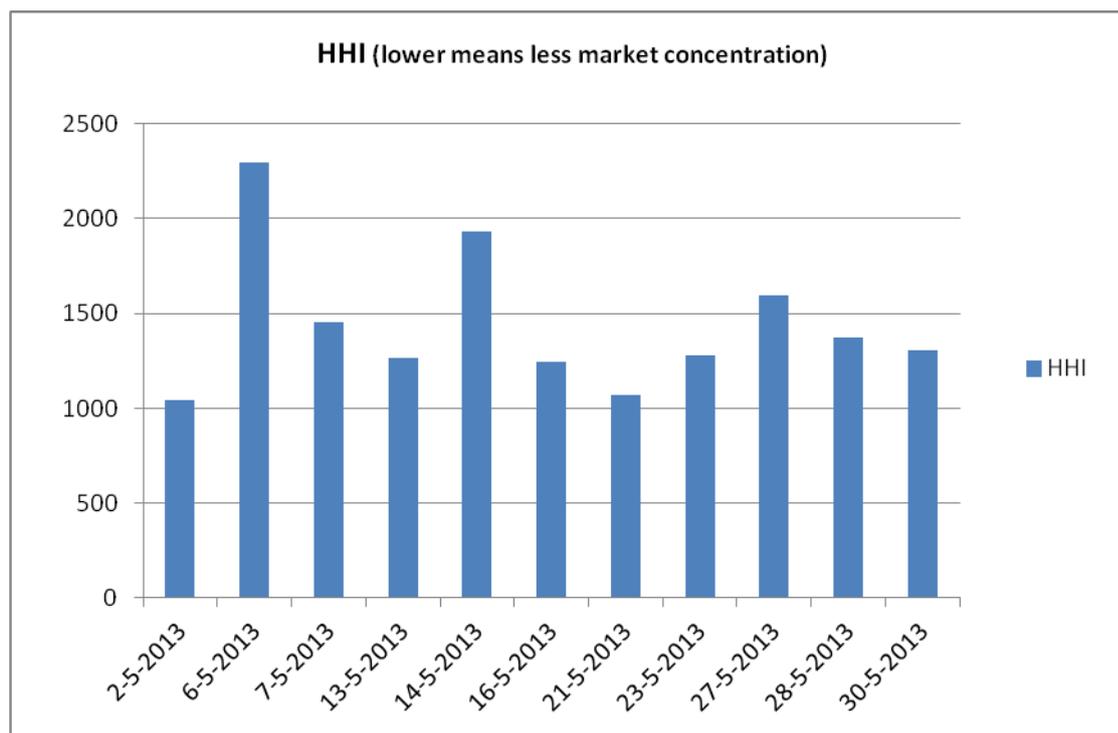
The Herfindahl-Hirschman Index (HHI) is used by EEX to measure market concentration. The HHI is calculated as the sum of the squares of all successful bidders' shares (in %) of the total auctioned volume. The HHI ranges from a value of 0 (perfect competition) to 10 000 (a single monopolistic buyer).

A common interpretation of the HHI is that a score below 1500 is 'not-concentrated', between 1500 and 2500 is 'moderately concentrated,' and above 2500 is 'highly concentrated'.

In general the HHI moved between 1000 and 1500 with the average HHI during the reporting period being 1440 (see Graph 7). This is lower than the average level in April which was 1670. On three occasions the HHI for the auctions peaked above 1500. The number and level of peaks was relatively low compared to the previous months.

Graph 7 Herfindahl-Hirschman Index

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Section 2. Implementation of and compliance with the applicable rules

Fair and open access

EEX verified that each auction participant belonged to one of the categories of eligible bidders set out in Article 18 of the *Auctioning Regulation*. By the end of April 2013, 48 bidders had been admitted to the auctions. Most of the active participants in the carbon market are assumed to have been admitted to bid in the auctions.

By the end of May 2013, still 48 companies were eligible to bid in the auctions, of which 33 were EU ETS operators, 6 were *investment firms* and 6 were *credit institutions* (see Table 2). The 3 other companies eligible to bid in the auctions were *persons exempt* from the authorisation requirements in EU financial law, because their trading and investment services activities are only ancillary to their main business (Article 2(1)(i) of Directive 2004/39/EC), that were authorised under national legislation implementing the Auctioning Regulation to bid for allowances in the auctions. Throughout the period, EEX actively promoted the auctions in view of attracting bidders.

Table 2 Eligible bidders per category at the end of the reporting period

Number of participants	Operators		Investment firms	Credit Institutions	Business groupings	Persons exempt From MiFID requirements (Article 2(1)(i) Directive 2004/39/EC)	Total
	Stationary	Aircraft					
Participants admitted to EEX's emissions <i>spot secondary market</i>	-	-	-	-	-	-	105
Participants eligible to bid in	32	1	6	6	0	3	48

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the auctions							
(Of which:) Participants eligible to bid in the auctions on behalf of clients	-	-	2	1	-	1	4
Auction-only participants	0	0	0	0	0	0	0

None of the admitted participants made use of the option of ' *auction-only access*' to the auctions. All bids were submitted by the bidder; there were no bids submitted by intermediaries on behalf of a client.

No irregularities or deviations from the admission and access requirements were found. EEX is continuing to market the auctions in various ways to attract new participants.

Transparency

All auction results were published in accordance with Article 61 of the *Auctioning Regulation*, never later than 15 minutes after the close of the *bidding window*.

There was no need to adjust the auction calendar during the reporting period.

EEX revised its webpage on auctioning several times to add to the available information and keep it up to date.

Technical and operational aspects

No irregularities or deviations from the requirements were found as regards the auctions themselves or the *clearing* and *settlement* processes.

EEX's Market Surveillance department surveyed all auctions with a view to detecting any *market abuse*, money laundering, terrorist financing or other criminal activities. No such wrongdoing was publicly reported. EEX's Market Surveillance department takes its instructions only from SMWA (Saxony's Ministry for Economy and Employment) and is independent of the exchange itself.

No infringements of the confidentiality requirements were identified.

Other aspects

No problems or issues were identified as regards coordination of the auctions between the various auction platforms.

Section 3. Overview of, and any updates on breaches of provisions or ongoing proceedings

No breaches or problems of non-conformity were reported. There are no proceedings on such breaches or problems of non-conformity dating from before the reporting period.

Approval of the report

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Comments of the auction platform on the draft of this report and the way they have been taken into account

EEX had a few minor comments on the report which all have been taken into account.

Date of approval by the Member States: 10 July 2013

Place & date: 11 July 2013

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Glossary

Auction calendar	Document setting out the <i>bidding windows</i> , individual volumes and auction dates of the auctions in a given calendar year. See Articles 11, 13 and 32 of the <i>Auctioning Regulation</i> .
Auction-only access	Access to the auctions without becoming a member of or participant in other markets organised by the auction platform.
Auctioning Regulation	Commission Regulation (EU) No 1031/2010 — Timing, administration and other aspects of auctioning of greenhouse gas emission allowances pursuant to Directive 2003/87/EC of the European Parliament and of the Council establishing a scheme for greenhouse gas emission allowances trading within the Community, Official Journal L 302, 18.11.2010, p. 1, as subsequently amended. See: http://ec.europa.eu/clima/policies/ets/cap/auctioning/documentation_en.htm .
Auctioneer	Entity appointed by a Member State that offers the allowances to be auctioned to the auction platform and receives the auction proceeds due to the appointing Member State. See Articles 22 and 23 of the <i>Auctioning Regulation</i> .
Back-loading	Proposal by the Commission to postpone, as a short-term measure, the auctioning of 900 million allowances from the years 2013-2015 until 2019-2020. See: http://ec.europa.eu/clima/policies/ets/reform/index_en.htm .
Best-bid and best-ask prices	The best-bid price is the highest price any buyer is willing to pay and the best-ask price is the lowest price any seller is willing to accept.
Business groupings	Groupings of operators or aircraft operators. See Article 18(1)(d) of the <i>Auctioning Regulation</i> .
Bidding window	Time during which bidders can submit bids. See Article 8(1) of the <i>Auctioning Regulation</i> .
Clearing	Processes preceding the opening of the bidding window, during the bidding window and following the closure of the bidding window until settlement, involving the management of any risks arising during that interval including margining, netting or novation or any other services carried out possibly by a clearing or settlement system. See Article 3(31) of the <i>Auctioning Regulation</i> .
Cover ratio	Total bid volume divided by the available volume in the auction.
Credit institution	Credit institution as defined in EU legislation on credit institutions (Article 4(1) of Directive 2006/48/EC).
ETS Directive	Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC, OJ L 275, 25.10.2003, p. 32, as subsequently amended. See: http://ec.europa.eu/clima/policies/ets/documentation_en.htm

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EU general allowance (EUA)	Allowance to emit one tonne of CO ₂ -equivalent, see Article 3(a) of the <i>ETS Directive</i> .
EU aviation allowance (EUAA)	Allowance to emit one tonne of CO ₂ -equivalent that can be used by aircraft operators. See Article 12(2a) and (3) of the <i>ETS Directive</i> .
Investment firms	Investment firms as defined in EU financial markets legislation (point (1) of Article 4(1) of Directive 2004/39/EC).
Market abuse	Insider dealing and market manipulation. See Article 36 of the <i>Auctioning Regulation</i> and Article 1 of Directive 2003/6/EC ('Market Abuse Directive').
Participating Member States	All EU Member States except Germany, Poland and the UK, which decided to opt out from the joint procurement of a common auction platform pursuant to Article 30 of the <i>Auctioning Regulation</i> .
Persons exempt	Persons exempt from the authorisation requirements in EU financial law because their trading and investment services activities are only ancillary to their main business (Article 2(1)(i) of Directive 2004/39/EC) and that have been authorised under national legislation implementing the rules laid down in the <i>Auctioning Regulation</i> to bid for allowances in the auctions. See Article 18(2) of the <i>Auctioning Regulation</i> .
Secondary market	Market in which persons buy or sell allowances either before or after they are allocated either free of charge or through auctioning. To be distinguished from the 'primary market', which consists of the auctions of allowances.
Settlement	Payment on delivery of the allowances. See Article 3(34) of the <i>Auctioning Regulation</i> .
Spot secondary market	Secondary market for allowances with delivery within 5 days from the transaction.
Stop-the-clock proposal	Proposal by the Commission to exempt from enforcement flights into and out of Europe operated in 2010, 2011, and 2012 to provide negotiation time for the ICAO General Assembly in autumn 2013. The proposal was adopted on 24 April 2013. See: http://ec.europa.eu/clima/policies/transport/aviation/index_en.htm and OJ L115 of 25 April 2013, p.1.
TARGET-2 bank account	Bank account in the TARGET2 system, which is an interbank payment system for real-time processing of cross-border transfers throughout the European Union. TARGET2 replaced TARGET (Trans-European Automated Real-time Gross Settlement Express Transfer System) in November 2007.
Third trading period	The period 2013-2020. Allowances are valid during a given period without distinction as regards the year within that period. See Article 13 of the <i>ETS Directive</i> .

Annex 1 Results of individual auctions

Date	Auction Price €/tCO2	Minimal Price €/tCO2	Maximal Price €/tCO2	Mean €/tCO2	Median €/tCO2	Auction Volume tCO2	Total Amount of Bids	Cover Ratio	Total Number of Bidders	Number of Successful Bidders	Total Revenue €
30-5-2013	3.65	1.59	3.90	3.33	3.61	3 462 000	7 329 000	2.12	13	11	12 636 300
28-5-2013	3.50	1.59	3.70	3.24	3.41	3 462 000	9 729 000	2.81	20	11	12 117 000
27-5-2013	3.41	1.59	3.55	3.11	3.30	3 462 000	13 220 000	3.82	19	8	11 805 420
23-5-2013	3.20	2.92	3.36	3.20	3.20	3 462 000	8 290 000	2.39	19	14	11 078 400
21-5-2013	3.49	1.59	3.70	3.26	3.44	3 462 000	10 120 000	2.92	20	13	12 082 380
16-5-2013	3.47	2.91	3.55	3.40	3.40	3 462 000	8 499 000	2.45	17	13	12 013 140
14-5-2013	3.23	1.59	3.36	3.05	3.20	3 462 000	7 784 000	2.25	18	13	11 182 260
13-5-2013	3.23	1.59	3.40	3.03	3.20	3 462 000	11 521 000	3.33	17	15	11 182 260
7-5-2013	3.68	3.50	4.50	3.67	3.64	3 462 000	7 802 000	2.25	17	11	12 740 160
6-5-2013	3.65	3.32	4.50	3.68	3.66	3 462 000	7 026 000	2.03	14	12	12 636 300
2-5-2013	2.90	1.50	3.02	2.84	2.87	3 462 000	11 013 000	3.18	21	15	10 039 800